

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
economic
forum

A project of the College of Arts and Sciences and the Department of Economics

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Analysis

The University of Oregon Index of Economic Indicators™ declined 0.4 percent in February to 106.3 (1996=100). Four indicators—Oregon residential building permits, help-wanted advertising in *The Oregonian*, Oregon nonfarm payrolls, and the interest rate spread—improved. The remaining four variables—Oregon initial jobless claims, the Oregon weight-distance tax, U.S. consumer confidence, and inflation-adjusted new manufacturing orders—deteriorated.

Similar to recent trends, labor market data were mixed in February. Initial unemployment claims rose to their highest level since last November, suggesting an increased pace of layoffs during the month. In sharp contrast, employees on nonfarm payrolls in Oregon jumped by 7,000, snapping a trend of weaker numbers in the last half of 2006. Gains were concentrated in the professional and business services, trade, transportation, utilities, and construction sectors. Manufacturing employment, however, declined. Help-wanted advertising in *The Oregonian* edged up for the month following a sharp decline in January.

Remaining indicators were generally weaker, with the exception of Oregon residential building permits, which built on January's strong gains. Permits were the highest since last May, and three of the past four months have been positive. This stands in sharp contrast to national trends, suggesting that the housing downturn may be less severe and shorter in duration in Oregon compared to the rest of the nation. Note that while construction employment declined nationally by 62,000 jobs in February, the Oregon construction industry added 900 jobs. Consumer confidence waned in February, reversing January's gain. The yield spread—the difference between short- and long-term interest rates—improved modestly. New orders for core manufactured goods, a key

indicator of business investment spending, extended January's sharp decline. Continuing declines in this variable would suggest a more significant slowing of economic activity later this year.

The index suggests continued slow to moderate economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.4 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 31.3 (in other words, more than half of the indicators deteriorated). As a general rule, a decline in the index of greater than 2 percent over six months (annualized), coupled with a decline in more than half of its components, signals that a recession is likely imminent.

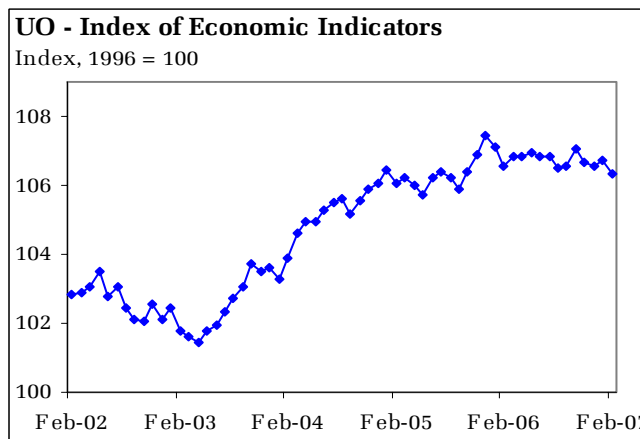


Table 1: Summary Measures

	2006				2007	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Economic Indicators™, 1996=100	106.5	107.0	106.7	106.6	106.7	106.3
Percentage Change	0.0	0.5	-0.4	-0.1	0.2	-0.4
Diffusion Index	43.8	68.8	18.8	50.0	56.3	31.3
6-Month Percentage Change, Annualized	-0.5	0.4	-0.5	-0.5	-0.2	-0.4
6-Month Diffusion Index	25.0	50.0	31.3	43.8	43.8	31.3



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Methodology and Notes

The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

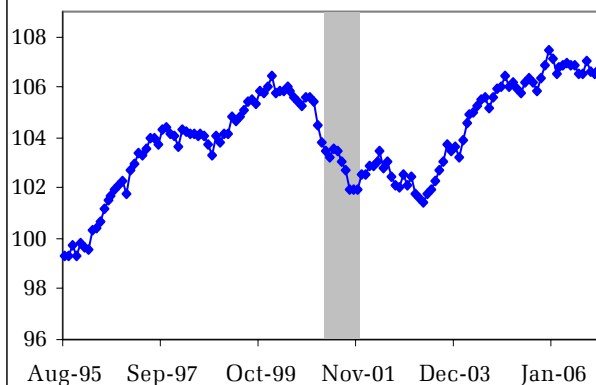
The UO Index is constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called “jobless recovery” that followed the 2001 recession, but did not falsely predict a double-dip recession. No other recessions were signaled during the period for which data are available (beginning February 1995).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. Moreover, no single variable is capable of decisively determining the state of the business cycle. Consequently, the UO Index of Economic Indicators is best considered as another tool in assessing the economy.

Sources: The Conference Board, Oregon Department of Transportation, Oregon Employment Department, Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Census Bureau, and the author's calculations.

UO - Index of Economic Indicators, Historical
Index, 1996 = 100, NBER Recession in Gray



UO - Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized
Red: 6-Month Diffusion Index Declines More Than 50%
NBER Recession in Gray

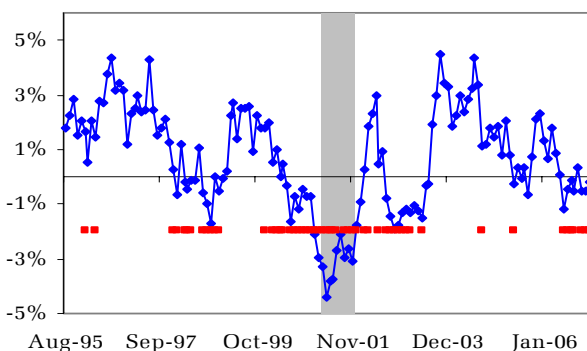


Table 2: Index Components

	2006				2007	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA*	6,350	6,211	6,972	6,269	5,676	6,809
Oregon Residential Building Permits, SA	1,809	1,873	2,430	1,607	2,501	2,788
The Oregonian Help-Wanted Ads, SA	19,801	19,372	18,817	19,302	16,194	16,394
Oregon Weight Distance Tax, \$ Thousands, SA	18,931	26,375	22,836	20,757	19,432	18,145
Oregon Total Nonfarm Payrolls, Thousands, SA	1713.9	1712.1	1714.0	1712.2	1711.7	1718.7
Univ. of Michigan U.S. Consumer Confidence	85.4	93.6	92.1	91.7	96.9	92.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	45,195	43,519	42,709	44,341	40,972	40,340
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.53	-0.52	-0.65	-0.68	-0.51	-0.54

* SA—seasonally adjusted

The goal of the University of Oregon Index of Economic Indicators™ is to create a summary measure of various data that pertain to the Oregon economy.